

First Quarter of 2017

QuotedData news

The first quarter of 2017 was dominated by news from the US, as President Trump struggled to implement some of his campaign promises, and the triggering of Article 50 here in the UK (which of course has now been topped by the snap general election). Markets were quite buoyant on the back of hopes that Trump's policies would fuel US growth but wobbled in the wake of the ignominious withdrawal of his healthcare bill.

New research

In February, we published our updated **Fidelity Closed-End Funds Review**. That month also saw the publication of an update note on Standard Life Private Equity – **Dividend doubled to 4.0%**. Aberdeen Frontier Markets' shift to **Direct investing** was the subject of our first note in March. We also released notes on JPMorgan Russian – **Russian recovery**, Seneca Global Income & Growth – **Celebrating five years since the strategy change**, a **Martin Currie Closed-End Funds Snapshot**, an update note on Strategic Equity Capital following the departure of the lead manager – **"Business as usual"** and **Full steam ahead** – a note on India Capital Growth that explored the impact of India's demonetisation experiment on the fund. You can read all of these notes, and more, by clicking on the links embedded above or by visiting www.quoteddata.com.

In this issue

Performance Data – India Capital Growth soars as investors embrace reforms.

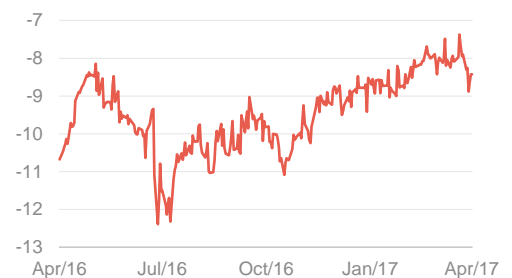
Money in and out of the sector – BioPharma Credit achieves the largest IPO of Q1 2017, raising \$762m.

Significant rating changes – Lindsell Train's premium dips as manager warns off over exuberant investors.

Major news stories – A shrinking Alliance Trust becomes a multi-manager, best ideas fund.

All investment companies median discount

Time period 01/04/2016 to 31/03/2017



Source: Morningstar, Marten & Co

Over the 12 months to the end of March 2017, the median discount across the whole sector moved within a range of 7.4% to 12.4%. Discounts spiked out following the referendum result but have narrowed since.

UK property funds median discount

Time period 01/04/2016 to 31/03/2017



Source: Morningstar, Marten & Co

Discounts on UK property funds widened a little before the referendum but were hit by the result. In recent months, however, the sector has been rehabilitated. **Industrial Multi Property Trust**, trading at a 41% discount a year ago, benefitted from a bid by **Hansteen**. **Picton Property Income** also saw an improvement in its rating.

More information about the funds mentioned in this report is available on our [website](#). If you are reading this online, there are links embedded in the document that will take you through to the relevant webpage.

Performance Data

A number of funds turned in strong performance for Q1 as is evidenced in Figures 1 and 2. Though many of the drivers behind these moves were specific to certain stocks, notable themes included a recovery in Indian and Chinese stock markets and outperformance by the technology sector.

Looking first at the positive moves:

Figure 1: Best performing funds in price terms in Q1 *

	%
Macau Property Opportunities	+52.0
Candover Investments	+39.6
Industrial Multi Property	+36.8
Kubera Cross Border	+36.0
Baker Steel Resources	+32.2
Manchester & London	+27.5
Geiger Counter	+25.7
Prospect Japan	+23.9
India Capital Growth	+23.0
River & Mercantile UK Micro Cap	+21.1

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 2: Best performing funds in NAV terms in Q1 *

	%
India Capital Growth	+23.0
Geiger Counter	+19.4
JPMorgan Indian	+17.6
Pacific Horizon	+16.7
Aberdeen New India	+16.1
Allianz Technology	+15.6
Schroder Asia Pacific	+15.6
Scottish Mortgage	+14.8
JPMorgan Chinese	+14.6
Fidelity China Special Situations	+14.5

Source: Morningstar, * excluding funds with market cap. below £15m

- India Capital Growth** takes the prize for the best performing fund in NAV terms, heading up a list that also includes **JPMorgan Indian** and **Aberdeen New India**. Investors are looking past the short-term hit to growth from India's demonetisation. The managers have warned that the implementation of the Goods and Services Tax may also prove a temporary stumbling block but otherwise the future looks bright – see [our note](#) for more detail.
- Macau Property Opportunities** made some upbeat comments about the state of the Macau economy (you can read these in our latest [Economic & Political roundup](#)).
- Candover** sold its remaining stakes in Technogym and Parques Reunidos.
- Industrial Multi Property** was on the receiving end of a bid from Hansteen, this upset major shareholder, Alpha Real Trust.
- Kubera Cross-Border** sold its largest investment.
- Resources trusts had a mixed quarter, **Baker Steel Resources** benefitted from a recovery in the gold price and some good news on its Polar Silver investment. **Geiger Counter**'s shares soared on the back of the uranium price but retrenched after Toshiba's Westinghouse unit went into bankruptcy threatening a number of new nuclear power station developments.
- Manchester & London**'s discount narrowed. It is one of the best performing funds in its UK equity peer group but that is largely because it now has a global equity portfolio (UK was just 23% of the fund according to its March 2017 factsheet).
- Prospect Japan** was bid for by its asset manager.

- **River & Mercantile UK Micro Cap** had a great quarter. Its holding in Taptica, which is up c75% so far this year, has been particularly beneficial.
- Asian funds did well. In part this is down to currency moves. Top of the list here was **Pacific Horizon**, a fund that we last wrote about back in **October 2016**, benefitted from the strength of both Asian equities and the technology sector. Chinese growth is coming in ahead of analysts' forecasts. Other Asian funds to feature in the list were **Schroder Asia Pacific**, **JP Morgan Chinese** and **Fidelity China**.
- **Allianz Technology** and **Scottish Mortgage** were beneficiaries of a stronger technology sector.

On the negative side:

Figure 3: Worst performing funds in price terms in Q1 *

	%
Infrastructure India	-32.3
LMS Capital	-23.3
British & American	-15.8
Polo Resources	-14.7
BlackRock Commodities Income	-12.1
EPE Special Opportunities	-11.4
Lindsell Train	-11.2
Livermore Investments	-9.7
Dolphin Capital Investments	-8.8
VietNam Holding	-8.7

Source: Morningstar, * excluding funds with market cap. below £15m

Figure 4: Worst performing funds in NAV terms in Q1 *

	%
EF Realisation	-27.6
Africa Opportunity	-12.0
JPMorgan Russian	-4.1
BH Macro USD	-3.5
JPEL Private Equity	-3.1
AXA Property	-3.1
British & American	-3.0
VietNam Holding	-3.0
BH Macro EUR	-2.6
BH Macro GBP	-2.6

Source: Morningstar, * excluding funds with market cap. below £15m

- **Infrastructure India** said that it was not able to repay its working capital loan when this fell due.
- **EF Realisation** has been hit by weakness in Lone Star Resources' share price. It just reported declining oil production and lower earnings.
- **LMS Capital** released a disappointing NAV update.
- **British & American's** performance is being driven largely by swings in the share price of biotech company, Geron, the fund's largest holding by some margin.
- **Polo Resources** shares drifted off but news on its portfolio was generally positive. **BlackRock Commodities Income** was similarly afflicted and its shares moved from a premium to a discount over the quarter.
- **Africa Opportunity** had to make a provision against the outcome of a court case.
- **EPE Special Opportunities** also saw its discount widen in Q1. Good results released just after the quarter end have reversed this trend so far in April.
- **JPMorgan Russian** may have been held back by worsening relations between the White House and the Kremlin over the quarter.
- **BH Macro** lost money on foreign exchange trading and long options positions in US indices in January. It made money in February but we don't know yet what happened in March.

Money in and out of the sector

Figure 5: Money entering the sector in Q1 2017

	£m
BioPharma Credit	607.1
HICL Infrastructure	260.0
Impact Healthcare REIT	146.2
LXi REIT	138.1
Amedeo Air Four Plus	130.0
John Laing Infrastructure	119.5
Scottish Mortgage	115.0*
Renewables Infrastructure	110.0
GCP Student Living	80.6
GCP Asset Backed Income	79.3

Source: Morningstar, * approximate value of additional capital at 31 March 2017

Figure 6: Money leaving the sector in Q1 2017

	£m
Alliance Trust	886.5*
M&G High Income	451.8
SVG Capital	300.0
Scottish Investment Trust	96.9*
Aberdeen Frontier Markets	59.8
Mercantile	54.9*
JPMorgan American	32.1*
Impax Environmental Markets	21.7*
British Empire	19.5*
Templeton Emerging	18.2*

Source: Morningstar, * approximate value of shares bought back at 31 March 2017

Around £2.3bn flowed into the sector during the first quarter of 2017. After a slow start, the new issue market picked up and we saw the launch of a number of interesting new funds. This was balanced by about £2.2bn of outflows including the winding up of funds such as M&G High Income, New City Energy and Duet Real Estate Finance.

Coming in:

BioPharma Credit, the largest fund IPO so far in 2017, raised \$761.9m to invest in a portfolio of loans most of which will be backed by royalty payments on medical treatments. **HICL Infrastructure**'s issue was three times oversubscribed. **Impact Healthcare REIT** is a new issue that will invest in a portfolio of care homes. New launch, **LXi REIT** says it focuses on UK property let with long, index-linked rents to institutional grade tenants. **Amedeo Air Four Plus** spent the proceeds of its issue on an A380-800 aircraft. It is hoping to come back again to fund the acquisition of four Airbus A350-XWBs to be let to Thai Airways. **John Laing Infrastructure** raised some money to repay its credit facility. **Scottish Mortgage** continues to attract new investors on the back of strong performance – its market cap is approaching £5bn. **Renewables Infrastructure** will use the cash it raised to fund deals such as an onshore wind farm in Wales and a Scottish battery storage project. **GCP Student Living** spent some of its cash buying student accommodation in Woburn Place, Bloomsbury, London. **GCP Asset Backed Income** has been lending money against UK residential property.

Going out:

Alliance Trust concluded a deal with its activist shareholder, Elliott, whereby Alliance bought their stake at a 4.75% discount. It is also having to buy shares from other sellers at this level. **M&G High Income** came to the end of its 20 year life and was wound up. A small amount of money was rolled over into the various share classes of **JPMorgan Elect**. **SVG Capital**, having sold its portfolio to Harbourvest, is returning cash to shareholders. A further £300m tender was concluded early in April. **Scottish Investment Trust** bought back Aviva's £90m stake in the company. Aviva has caused a lot of disruption across the sector as it has been selling out of a number of trusts. **Aberdeen Frontier Markets** offered shareholders a 100% cash exit. In the end, many were convinced to stay in and benefit from a shift to direct

investing – you can read more about this in [our note](#). [Mercantile](#), [JPMorgan American](#), [Impax Environmental Markets](#), [British Empire](#) and [Templeton Emerging](#) remain unloved by investors and continue to shrink by buying back stock on a regular basis. JPMorgan American is seeking to stem the tide by revamping its investment approach.

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Significant rating changes

[Industrial Multi Property](#) and [Prospect Japan](#) both benefitted from takeover bids. [Macau Property Opportunities](#) published some upbeat comments on the state of the Macau economy. [Baker Steel Resources](#) had some good news on its Polar Silver investment. [Manchester & London](#)'s decent performance has been attracting attention. [Henderson European Focus](#) moved to trade at a premium and has been able to issue some stock but a weaker Euro has meant its share price has retrenched in April. [Picton Property Income](#) and [Secure Income REIT](#) were two of a number of UK property funds to recover their poise in Q1 2017, shrugging off Brexit fears. Likewise, investors seem more sanguine about the prospects for UK smaller companies, this benefitted [Henderson Opportunities](#). [Blue Capital Global Reinsurance](#)'s share price recovered; selling pressure from large institution may have weighed on its discount.

Figure 7: More expensive relative to NAV – notable changes to discount (-ve) or premium (+ve)

	31/12/16	31/03/17
	%	%
Industrial Multi Property	-25.5	+2.0
Macau Property Opportunities	-50.7	-24.0
Baker Steel Resources	-40.0	-22.8
Prospect Japan	-27.4	-12.6
Manchester & London	-23.8	-11.1
Henderson European Focus	-8.5	+2.1
Picton Property Income	-4.8	+5.3
Secure Income REIT	-1.9	+8.0
Henderson Opportunities	-21.8	-12.0
Blue Capital Global Re.	-16.0	-6.3

Source: Morningstar, Marten & Co

Figure 8: Less expensive relative to NAV - notable changes to discount (-ve) or premium (+ve)

	31/12/16	31/03/17
	%	%
Lindsell Train	+66.3	+37.8
British & American	+80.9	+57.2
EPE Special Opportunities	-16.3	-34.0
LMS Capital	-22.5	-40.1
BlackRock Commodities Inc	+3.0	-7.7
BlackRock North American	+0.1	-6.9
Fidelity Special Values	-1.6	-8.4
CatCo Reinsurance Opp.s	+6.0	+0.2
Marwyn Value Investors	-32.9	-38.6
Infrastructure India	-83.7	-89.3

Source: Morningstar, Marten & Co

Lindsell Train's premium fell after its manager warned that it was becoming excessive. **British & American**'s share price and NAV are volatile (its portfolio is dominated by an investment in a small biotech company). **EPE Special Opportunities** has delivered very strong NAV performance, on the back of an investment in Luceco, but its shares have been left behind. **LMS Capital** wrote down its NAV quite aggressively in its latest results and this may have unnerved investors. **BlackRock Commodities Income** moved to trade at a small discount. This, and the share price moves by **BlackRock North American** and **Fidelity Special Values** may reflect nervousness that President Trump will fail to deliver promised economic stimulus. **CatCo**'s premium moderated. **Marwyn Value Investors** has been making new investments but its 2016 results weren't great. **Infrastructure India** admitted that it couldn't repay its working capital loan and had to get an extension on it from the lender.

Major news stories

Portfolio developments

- Epiris made a string of disposals on behalf of **Electra**
- **Hg Capital** sold Zenith
- **Duet Real Estate Finance** sold its last investment
- **Vietnam Infrastructure** sold its stake in Southeast Asia Telecommunications
- **Candover** sold the rest of its stake in Technogym and part of its Parques Reunidos investment
- **HICL** bought two Dutch PPP projects
- **ICG Enterprise** sold Micheldever Group
- **NextEnergy Solar** bought four plants
- **UK Mortgages** updated on its third investment
- **ICG Longbow** lent money to clients of BMO Real Estate and announced the repayment of a loan
- **Africa Opportunity** had a setback in its Shoprite legal dispute
- **Dunedin Enterprise** sold Steeper and invested in Forensic Risk Alliance
- **Foresight Solar** bought plants in Flintshire and Wiltshire
- **BlackRock World Mining** wrote up the value of Avanco Royalty
- **Crystal Amber** increased its stake in GI Dynamics
- **Infrastructure India** revealed problems with its logistics investment
- **BP Marsh** bought a stake in CBC
- **JPMorgan Private Equity** sold Datamars
- **Kubera** sold Planetcast Media
- **Starwood European** said two loans had been repaid
- **Marwyn** invested in speciality chemicals company, Wilmcote
- **Greencoat UK Wind** bought Langhope wind farm
- **Amedeo Air Four Plus** said it would buy Airbus 350s
- **Better Capital 2012** wrote down the value of Jaeger

Corporate news

- **London & St Lawrence** has decided to wind up
- **Alliance Trust** bought back Elliott's stake and became a multi-manager best ideas fund
- **Acorn Income** achieved a rollover of its zeros
- **Prospect Japan** was bid for
- **Alpha Real Trust** won an EGM it called at Industrial Multi Property Trust
- **JPMorgan Russian** proposed a conditional tender
- **Hansteen** bid for Industrial Multi Property
- **Foresight Solar** announced it would list on the Johannesburg Stock Exchange but later changed its mind
- **Sirius Real Estate** did get a listing on the Johannesburg Stock Exchange
- All of GLI Finance's stake in the **SME Loan Fund** was placed with new investors
- **Fair Oaks Income** put forward proposals to extend its life which were approved by shareholders
- **Aberdeen Frontiers** proposals to shift to direct investing were backed by investors
- **Polar Capital Global Healthcare** published some thoughts on its future
- **Threadneedle UK Select** will merge with Henderson High Income
- **Duke Royalty** has plans to raise capital so that it can be readmitted to AIM
- **BlackRock Smaller Companies** said it wanted to remove the cap on its AIM exposure
- **JPMorgan American's** board and manager said they would revamp its investment approach

Managers & fees

- Stuart Widdowson resigned as manager of **Strategic Equity Capital**
- **JPMorgan Japan Smaller's** fees were cut
- **BlackRock North American** said its manager is retiring
- Alan Kerr left the **Blackstone/GSO** team
- **Witan** appointed a new emerging markets manager
- SQN became manager of a revamped **SME Loan Fund**
- **JPMorgan European Smaller Companies** introduced a stepped fee
- **Keystone** got a new manager
- Alan Borrows intends to resign from **Seneca Global Income & Growth**
- Jim Campbell is on leave from **JPMorgan European Smaller**
- **BlackRock Emerging Europe** cut its fee
- **Monks** adopted a tiered fee structure
- **Volta Finance** upped directors' pay



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Past performance is not a guide to future returns.

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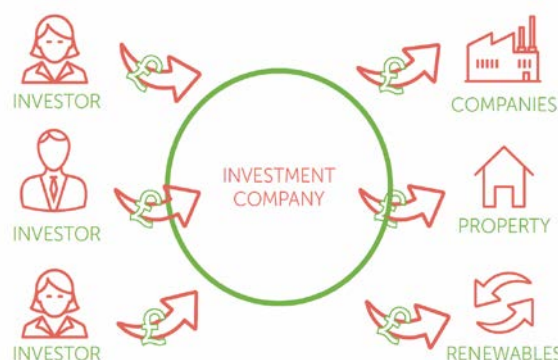
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*Source: Morningstar, share price, total return as at 31.12.16. *Ongoing charges as at 31.03.16. Your call may be recorded for training or monitoring purposes. Scottish Mortgage Investment Trust PLC is available through the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA, which are managed by Baillie Gifford Savings Management Limited (BGSML). BGSML is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC.

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If you want a basic introduction to investment companies or have questions about the first part of the guide, QuotedData's analysts will be making a presentation over the internet at **2pm on Thursday 27 April**. If this is something you might find useful then please visit our website.



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